

400 Washington Avenue, Room 221
Towson, Maryland 21204



Office (410) 887-3193
Fax (410) 887-4621

OFFICE OF THE COUNTY AUDITOR INTEROFFICE MEMORANDUM

TO: All Council Members
FROM: Lauren M. Smelkinson, County Auditor
DATE: March 26, 2013
SUBJECT: Addendum to Council Meeting Notes

Please find attached an addendum (Bill 16-13) to the Council Meeting Notes issued March 21, 2013.

This item will be discussed at the March 26, 2013 work session for the April 1, 2013 Council meeting.

Attachment

cc: notes distribution list

Bill 16-13 (Supplemental Appropriation)**Council District(s) All****Mr. Quirk (By Req.)****Office of Budget and Finance****Insurance Contribution**

The Administration is requesting a supplemental appropriation of undesignated, unreserved General Fund surplus funds totaling \$9 million to the Insurance Contributions General Fund program. The funds will then be placed in the County's Other Post-Employment Benefits (OPEB) Trust Fund for retiree health and life insurance benefits in order to mitigate the difference between the County's costs (current expenses and accrued liability) and previously budgeted funding. See Exhibit A.

Fiscal Summary

Funding Source	Supplemental Appropriation	Current Appropriation	Total Appropriation
County ⁽¹⁾	\$ 9,000,000	\$ 83,433,585	\$ 92,433,585
State	--	--	--
Federal	--	--	--
Other	--	--	--
Total	<u>\$ 9,000,000</u>	<u>\$ 83,433,585</u>	<u>\$ 92,433,585</u>

⁽¹⁾ Undesignated, unreserved General Fund surplus.

Analysis

Effective for Baltimore County in FY 2008, Governmental Accounting Standards Board (GASB) accounting standards require state and local governments to recognize the cost of current and future other post-employment benefits (OPEB) obligations when they are earned throughout the

employee's career (similar to the accounting treatment for pensions) rather than when they are paid after the employee retires. The County began pre-funding this obligation in FY 2007 and established a separate Trust Fund to account for OPEB costs and accrued liability, similar to the Pension Trust Fund. Both retiree Pay-As-You-Go (PAYGO) contributions for retirees' current expenses, as well as active employee and retiree accrued liability contributions, flow from the Insurance Contributions operating budget program to the OPEB Trust Fund. Additionally, contributions flow from component unit (Baltimore County Public Schools (BCPS), Community College of Baltimore County (CCBC), and Baltimore County Public Library (BCPL)) budgets to the OPEB Trust Fund.

The proposed \$9 million supplemental appropriation will reduce the gap between the County's costs (current expenses and accrued liability) and previously budgeted funding. In FY 2013, the County budgeted \$20 million for the General Government OPEB costs—less than its \$109.6 million portion of the FY 2012 annual required contribution (ARC) and less than its \$50.5 million PAYGO expense (although the Office advised that the PAYGO expense has been revised downward to \$44.7 million). FY 2013 was the third consecutive year that funding was less than the PAYGO expense; thus, funding placed in the Trust in prior years is being used earlier than originally anticipated. (Appropriated FY 2013 funding earmarked for OPEB totals \$93.3 million, including component unit funding.)

The proposed supplemental appropriation will be funded by undesignated, unreserved General Fund surplus. The Office advised that the surplus balance of \$145.0 million as of June 30, 2012 was approximately \$15 million higher than the Office anticipated in the FY 2013 budget. The FY 2013 budget relies on \$40.6 million of the surplus as a source of funding. (In addition, as of June 30, 2012, \$84.8 million was available in the Revenue Stabilization Reserve Account (RSRA).) Excluding this proposed supplemental appropriation, the Office of the County Auditor projects that the June 30, 2013 undesignated, unreserved General Fund surplus (assuming FY 2013 revenues of \$1,677.7 million) will total \$214.5 million, with an additional \$85.1 million available in the RSRA.

The supplemental appropriation will result in a \$9 million increase to ongoing spending subject to the Spending Affordability Committee's FY 2013 guideline. During its FY 2014 deliberations, the Committee modified its policy treatment of off-budget expenditures, which had the effect of decreasing FY 2013 base-year spending by \$11,154,583 for the purposes of calculating the FY 2014 spending guideline. Adding the \$9 million to the decreased FY 2013 base-year spending

amount and applying the adopted 3.07% personal income growth factor would yield a revised FY 2014 spending guideline of \$1,686,093,745.

In its FY 2013 budget message, the Council urged the Administration to formulate and present prior to the submission of the FY 2014 budget an updated multi-year plan for funding the County's rising liabilities, including its OPEB cost.

With the affirmative vote of five members of the County Council, Bill 16-13 will take effect April 8, 2013.

Other Post Employment Benefit Plan (OPEB)

The County administers an OPEB trust fund that provides for payment of healthcare and life insurance benefits for retirees of Baltimore County Government and the County's component units, which include the Baltimore County Board of Education, the Community College of Baltimore County, the Board of Library Trustees for Baltimore County. The OPEB Plan was established in 2007 with a prefunding of \$152 million and used those funds to supplement annual appropriations so that Baltimore County was able to achieve full funding of the Annual Required Contribution (ARC) to the OPEB Fund. However, due to fiscal constraints, Baltimore County could not continue funding OPEB at its normal levels. While funding the allocation for the component units, the appropriation for the primary government dropped to zero.

In FY13, the County funding \$20 million of the primary government's obligation, compared to the Pre-FY11 level of \$47 million. This \$20 million level was also \$24.7 million short of the expected pay-as-you-go\current level of disbursements for retiree health and life insurance benefits of \$44.7 million.

The Administration desires to return the County to a path leading to full funding of its ARC. As a phase-in of an anticipated increase in the primary government's FY14 appropriation for OPEB, the Administration is seeking approval of a \$9 million supplement to the FY13 Budget.

The \$9 million supplement would cut the gap between current funding and the Pre-FY11 level by 1/3. The funding for the \$9 million supplement would come from the Undesignated Fund Balance, which ended FY 2012 almost \$15 million higher than anticipated in the FY13 budget.